



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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January 13, 2011

TO: Pete Delgado, Chief Executive Officer
LAC+USC Healthcare Network

FROM: Jim Schneiderman, Chief
Audit Division 

SUBJECT: **LAC+USC HEALTHCARE NETWORK – REVIEW OF TRUST FUNDS,
REVOLVING FUNDS, COMMITMENTS AND ACCOUNTS PAYABLE**

We have reviewed LAC+USC Healthcare Network's (LAC+USC or Facility) trust funds, revolving funds, commitments and accounts payable. Our review included interviews with LAC+USC financial management and staff, and tests of LAC+USC records.

Our review indicates that LAC+USC generally does a good job of maintaining controls in fiscal areas, including maintaining proper separation of duties over their cash and deposits. However, we noted that LAC+USC needs to develop spending plans for its trust accounts, and ensure that trust accounts are used as intended. LAC+USC should also maintain subsidiary ledgers for its trust accounts, cancel unneeded commitments, and maintain adequate controls over its accounts payable and revolving funds. The following are the detailed results of our review and recommendations for improvement.

Trust Accounts

LAC+USC has 19 trust accounts, including their LAC+USC Medical Center-Miscellaneous Trust Account (TK7-7121), which includes 28 smaller Departmental trust accounts, referred to as sub-accounts. The trust accounts are used to account for donations, grants, patients' personal deposits, and State sales tax payments and collections. As of June 30, 2009, LAC+USC had \$2.7 million in its trust accounts. We reviewed LAC+USC's controls over its trust accounts and noted the following:

- At the time of our review, four trust accounts and 21 TK7 sub-accounts, totaling \$778,600, had been inactive for an average of eight years. The largest of these trust accounts, the Emerging Technologies Fund, had a \$532,500 balance and

had no activity since it was established in 1989. LAC+USC also could not locate documentation indicating the purpose and authority for one trust fund and six sub-accounts. As a result, we could not determine whether these accounts were used appropriately. In addition, three sub-accounts are no longer needed and LAC+USC agreed that the three accounts should be closed.

- We reviewed 28 transactions from ten trust accounts and five sub-accounts, and noted that LAC+USC did not have documentation (i.e., journal vouchers and deposit slips) for four transactions (14%), totaling \$8,400. As a result, we could not determine if the transactions were appropriate. In addition, we noted that LAC+USC used \$600 from one sub-account for an employee holiday party and gifts. LAC+USC could not provide documentation that the sub-account could be used for this purpose, as required by County Fiscal Manual (CFM) Section 2.4.4.
- CFM Section 2.3.0 requires departments to reconcile their trust accounts to the County's official accounting records monthly, or quarterly if the account balance is less than \$5,000. The reconciliations must be approved by management. Departments must also maintain subsidiary ledgers for each account. LAC+USC does not update their ledgers on an on-going basis. The ledgers are only updated when the fund is reconciled. LAC+USC also does not maintain detailed subsidiary ledgers for their TK7-7212 trust account, or for 24 of its 28 sub-accounts. As a result, the TK7-7212 trust account was not being reconciled to eCAPS, as required. We noted, at the time of our review, the TK7-7212 account had an unreconciled difference of \$37,100, which was 11% of the account's total balance. Because LAC+USC did not maintain detailed subsidiary ledgers for all sub-accounts, we could not determine the source of the discrepancy. In addition, 35 (97%) of the 36 monthly reconciliations we reviewed were completed approximately five months late, and one reconciliation could not be located. We also noted that management did not approve four (11%) of the reconciliations.

LAC+USC should review its trust accounts and sub-accounts annually, keep documentation of each trust account's purpose and authority, close accounts if the Facility cannot determine the account's purpose or if the account is no longer needed, and appropriately dispose of any remaining balances. LAC+USC should also develop spending plans for trust accounts that are still needed, ensure that accounts are used as intended, and maintain documentation to support all trust account transactions. Finally, LAC+USC should keep detailed ledgers for all trust accounts and sub-accounts, reconcile the accounts monthly/quarterly, as required, ensure that reconciliations are appropriately reviewed and approved, and that unreconciled differences are promptly investigated and resolved.

Recommendations

LAC+USC management:

- 1. Review trust accounts and sub-accounts annually, keep documentation of each trust account's purpose and authority, close accounts/sub-accounts if the Facility cannot determine the account's purpose or if the account is no longer needed, and appropriately dispose of any remaining balances.**
- 2. Develop spending plans for trust accounts that are still needed, ensure that trust accounts are used as intended, and maintain documentation to support all transactions.**
- 3. Keep detailed subsidiary ledgers for all trust accounts and sub-accounts.**
- 4. Reconcile trust accounts and sub-accounts monthly/quarterly, as required, ensure that reconciliations are appropriately reviewed and approved, and that unreconciled differences are promptly investigated and resolved.**

Patients' Personal Deposits

If a patient has money with them when they are admitted to LAC+USC, the money is deposited into LAC+USC's Patients' Personal Deposit trust account for safekeeping and the patient is given a receipt for their funds.

CFM Section 1.3.7.1 requires that funds received be deposited intact and prohibits making disbursements from collections before they are deposited. LAC+USC has a \$16,000 revolving cash trust fund to be used to refund patients' personal deposits. In addition, CFM Section 1.3.3.1 requires cashiers to obtain supervisory approval for voided receipts, with an explanation for why the transaction was voided.

We noted that, if a patient returns to claim their money before it has been deposited, the cashiers issue the refund from the patient trust collections and not from the revolving cash trust fund. In addition, the cashiers void the patient's receipt without documenting the reason for the void, and without obtaining the required supervisory approval. LAC+USC should ensure that cashiers deposit patients' personal funds intact, make refunds from the revolving cash trust fund, document the reasons for all voided transactions, and obtain supervisory approval for voided receipts.

In addition, Government Code Sections 50050 through 50057 indicate unclaimed funds should be transferred to the Treasurer and Tax Collector (TTC) for disposition. At the time of our review, LAC+USC's Patients' Personal Deposit trust account had

approximately \$30,400 in unclaimed funds that should have been transferred to TTC. LAC+USC management should transfer unclaimed patient funds to TTC on an ongoing basis, and periodically review the Patients' Personal Deposit trust account to identify unclaimed funds.

Recommendations

LAC+USC management:

- 5. Ensure cashiers deposit patients' personal funds intact and that refunds are made from the revolving cash trust fund.**
- 6. Ensure that cashiers document the reasons for all voided transactions and obtain supervisory approval for voided receipts.**
- 7. Transfer the \$30,400 in unclaimed funds to TTC, and periodically review the Patients' Personal Deposit trust account to identify and transfer additional unclaimed funds to TTC.**

Revolving Funds

Revolving funds are used for change funds, petty cash purchases and other purposes. Revolving cash trust funds are used to make high volume refunds. LAC+USC has two revolving funds and two revolving cash trust funds, totaling approximately \$46,600. The revolving funds are divided into 15 cashier change funds, four cash aid funds and three petty cash funds. LAC+USC has three cashier offices that use the revolving funds and revolving cash trust funds. Our review of LAC+USC's revolving funds and revolving cash trust funds disclosed the following:

- One revolving cash trust fund used for employee cafeteria card deposits, totaling \$2,000, has been inactive since May 2000 and is no longer needed by LAC+USC. LAC+USC should periodically review all revolving funds and revolving cash trust funds, and close any funds that are no longer needed.
- Forty-two checks from January through March 2007 revolving fund reconciliations, totaling \$1,900, had been outstanding for over 90 days. Although the Facility contacted the bank about canceling the checks, the outstanding items were not resolved as of January 2009. LAC+USC needs to ensure staff investigate and resolve all bank account reconciling items appropriately.

Recommendations

LAC+USC management:

8. Periodically review all revolving funds and revolving cash trust funds, and close funds that are no longer needed.
9. Ensure staff investigate and resolve the bank account reconciling items appropriately.

Commitments and Accounts Payable

At the end of each fiscal year, County departments establish commitments to pay for services and supplies that have been ordered or contracted for, but were not received by the end of the fiscal year; and accounts payable for services and supplies that have been received in the current year, but will be paid for in the subsequent year. Because commitments and accounts payable are estimates of future expenditures that restrict the County's available fund balance, departments should ensure that the amount of these reserves are as accurate as possible by monitoring them and cancelling them when they are not needed. Cancelled commitments and payables should be returned to LAC+USC's available fund balance, so they may be budgeted for future spending. The Auditor-Controller's Accounting Division instructs departments to cancel unneeded commitments at the end of each fiscal year. Accounts payable are automatically cancelled at the end of the fiscal year if not used.

Commitments

At the time of our review, LAC+USC had 194 commitments totaling approximately \$9.5 million. We reviewed 20 of these commitments, totaling \$2.7 million, and noted that eight (40%), totaling \$372,000, were no longer needed by the Facility and should have been cancelled. Seven of these commitments had been carried forward from prior fiscal years and should have been cancelled over four years ago.

Accounts Payable

At the time of our review, LAC+USC established \$14.6 million in accounts payable. We reviewed payments charged against the accounts payable to determine whether the services and supplies were actually received before the end of the fiscal year. Our review disclosed no material findings. However, we also tested payments charged against the subsequent year's purchase orders, and noted that LAC+USC inappropriately charged \$220,700 for goods and services that were actually received before fiscal year end to the subsequent year's purchase orders. LAC+USC should have established accounts payable for these items.

Recommendation

- 10. LAC+USC management reinstruct fiscal staff on establishing and cancelling commitments and accounts payable and monitor for compliance.**

County Internal Control Certification Program

County Code Section 2.10.015 requires County departments to evaluate their fiscal controls annually using the County's Internal Control Certification Program (ICCP). The ICCP is intended to give departments the ability to assess their own internal controls and take corrective action to ensure compliance with County policies and standards.

When LAC+USC evaluated its fiscal controls over trust accounts, revolving funds, commitments and accounts payable using the ICCP, management certified controls were in effect, but we noted otherwise. Many of the internal control weaknesses discussed in this report could have been identified and corrected if the Facility had properly completed the ICCP, as required.

To ensure that LAC+USC correctly certifies that controls are in place, LAC+USC management should conduct ICCP reviews in accordance with the ICCP procedures, and ensure that the information is accurate before submitting the ICCP to the Auditor-Controller.

Recommendation

- 11. LAC+USC management conduct ICCP reviews in accordance with the ICCP procedures and ensure that the information is accurate before submitting the ICCP to the Auditor-Controller.**

Review of Report

We discussed the results of our review with LAC+USC financial management. LAC+USC financial management agreed with our findings and recommendations, and will work to improve controls in these fiscal areas. LAC+USC's detailed response (attached) describes the corrective actions they have taken, or plan to take, to address the recommendations in our report. We thank LAC+USC management and staff for their cooperation and assistance during our review.

We will be issuing a summary report of our reviews at all DHS facilities to the Board of Supervisors. Please call me if you have any questions, or your staff may contact Mike McWatters at (213) 253-0104.

JLS:MWM

Pete Delgado
January 13, 2011
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Attachment

c: Wendy L. Watanabe, Auditor-Controller
Mitchell H. Katz, M.D., Director, DHS
Sharon Ryzak, Audit and Compliance Division, DHS
Audit Committee



Health Services
LOS ANGELES COUNTY

December 23, 2010

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TO: Wendy L. Watanabe
Auditor-Controller

FROM: John F. Schunhoff, Ph.D. 
Interim Director

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER'S REVIEW OF TRUST ACCOUNTS, REVOLVING FUNDS, COMMITMENTS AND ACCOUNTS PAYABLE – LAC+USC HEALTHCARE NETWORK**

John F. Schunhoff, Ph.D.
Interim Director

Gail V. Anderson, Jr., M.D.
Interim Chief Medical Director

Attached is the Department of Health Services' response to the recommendations made in the Auditor-Controller's report of its review of Trust Accounts, Revolving Funds, Commitments and Accounts Payable at the LAC+USC Healthcare Network. We concur with and have taken or initiated corrective actions to address the recommendations contained in the report.

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If you have any questions or require additional information, please let me know or you may contact Sharon Ryzak at (213) 240-7901.

JFS:sr

Attachment

*To improve health
through leadership,
service and education*

c: Pete Delgado
Gregory C. Polk
Allan Wecker
Sharon Ryzak



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COUNTY OF LOS ANGELES – DEPARTMENT OF HEALTH SERVICES
RESPONSE TO AUDITOR-CONTROLLER TRUST ACCOUNTS, REVOLVING FUNDS,
COMMITMENTS AND ACCOUNTS PAYABLE REVIEW –
LAC+USC HEALTHCARE NETWORK (LAC+USC)

AUDITOR-CONTROLLER RECOMMENDATION #1

LAC+USC management review trust accounts and sub-accounts annually, keep documentation of each trust account's purpose and authority, close accounts/sub-accounts if the Facility cannot determine the account's purpose or if the account is no longer needed and appropriately dispose of any remaining balances.

DHS response:

We concur. By February 1, 2011, trust funds and sub-accounts will be reviewed at least annually, and accounts/sub-accounts no longer needed will be closed and the funds appropriately dispositioned. Documentation of each existing trust account's purpose and authority will be maintained and any new trust account's purpose and authority will be thoroughly documented.

On October 27, 2010 the Chief Financial Officer requested the Senior Executive Officers to develop spending plans. By February 1, 2011, Expenditure Management will maintain documentation for each trust account including the purpose and authority. Accounts will be closed and any remaining balances appropriately disposed if the Facility cannot determine the account's purpose or the account is no longer needed.

AUDITOR-CONTROLLER RECOMMENDATION #2

LAC+USC management develop spending plans for trust accounts that are still needed, ensure that trust accounts are used as intended and maintain documentation to support all transactions.

DHS response:

We concur. On October 27, 2010 the Chief Financial Officer requested the Senior Executive Officers to submit spending plans by February 1, 2011. Expenditure Management will work with Administrators to ensure that trust accounts are used as intended and maintain documentation to support all transactions.

AUDITOR-CONTROLLER RECOMMENDATION #3

LAC+USC management keep detailed subsidiary ledgers for all trust accounts and sub-accounts.

DHS response:

We concur. Effective October 1, 2010, management is keeping detailed subsidiary ledgers for all trust accounts and sub-accounts.

AUDITOR-CONTROLLER RECOMMENDATION #4

LAC+USC management reconcile trust accounts/sub-accounts monthly/quarterly, as required, ensure that reconciliations are appropriately reviewed and approved, and that unreconciled differences are promptly investigated and resolved.

DHS response:

We concur. Effective January 1, 2011, LAC+USC management will reconcile trust accounts/sub-accounts monthly/quarterly, ensure reconciliations are appropriately reviewed and approved, and promptly investigate and resolve unreconciled differences.

AUDITOR-CONTROLLER RECOMMENDATION #5

LAC+USC management ensure cashiers deposit patients' personal funds intact and that refunds are made from the revolving cash trust fund.

DHS response:

We concur. The Cashier supervisors were verbally informed on March 1, 2009 to ensure cashiers deposit patients' personal funds intact and make refunds from the revolving cash trust fund. Expenditure Management has drafted revised procedures for depositing and releasing patient's personal deposits that will be finalized by February 1, 2011.

AUDITOR-CONTROLLER RECOMMENDATION #6

LAC+USC management ensure that cashiers document the reasons for all voided transactions and obtain supervisory approval for voided receipts.

DHS response:

We concur. Cashier's supervisors and staff were verbally informed on March 1, 2009 and provided with a written reminder on August 26, 2010, that cashiers must document the reasons for all voided transactions and obtain supervisory approval for voided receipts.

AUDITOR-CONTROLLER RECOMMENDATION #7

LAC+USC management transfer the \$30,400 in unclaimed funds to Treasurer and Tax Collector (TTC) and periodically review the Patients' Personal Deposit trust account to identify and transfer additional unclaimed funds to TTC.

DHS response:

We concur. Unclaimed funds were transferred to TTC on September 9, 2010. The Patient Personal Deposit trust account is currently being reconciled and will be periodically reviewed, and unclaimed funds will be transferred to TTC on an annual basis.

AUDITOR-CONTROLLER RECOMMENDATION #8

LAC+USC management periodically review all revolving funds and close funds that are no longer needed.

DHS response:

We concur. Expenditure Management is periodically reviewing all revolving funds on an ongoing basis, closing the accounts no longer needed, and will request the Auditor-Controller to close an additional account by February 1, 2011.

AUDITOR-CONTROLLER RECOMMENDATION #9

LAC+USC management ensure staff investigate and resolve the bank account reconciling items appropriately.

DHS response:

We concur. Effective June 2010, checks that are outstanding for more than three months are reported to the Expenditure Manager and the bank is notified to stop payment. Expenditure Management reviews the monthly reconciliation and follows up on outstanding items until resolved.

AUDITOR-CONTROLLER RECOMMENDATION #10

LAC+USC management reinstruct fiscal staff on establishing and cancelling commitments and accounts payable and monitor for compliance.

DHS response:

We concur. The eight prior-year commitments identified during the review have been canceled. Effective October 2010, all commitment balances are reviewed on a quarterly basis to identify those that can be canceled and/or reduced. Materials Management and Expenditure Management staff were re-instructed on June 21, 2010 and August 23, 2010 respectively, on establishing and cancelling commitments and accounts payable and monitoring for compliance.

AUDITOR-CONTROLLER RECOMMENDATION #11

LAC+USC management conduct Internal Control Certification Program (ICCP) reviews in accordance with the ICCP procedures and ensure that the information is accurate before submitting the ICCP to the Auditor-Controller.

DHS response:

We concur. On July 23, 2009, a memo was sent from the CFO to LAC+USC MC Management, instructing them to ensure that their assessable units accurately evaluate and certify their internal controls. Expenditure Management reviews the annual ICCP for accuracy prior to submitting to the Auditor-Controller.